

Message Text

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ACTION EB-08

INFO OCT-01 ARA-06 EUR-12 IO-13 ISO-00 L-03 FRB-03
OMB-01 ITC-01 SP-02 USIA-06 AGRE-00 AID-05
CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 OIC-02
SIL-01 STR-04 TRSE-00 CEA-01 INT-05 FEA-01 GSA-02
OES-06 SS-15 NSC-05 /114 W
-----150314Z 074056 /73

R 141545Z APR 77
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 4358
INFO USMISSION GENEVA
AMEMBASSY PARIS
AMEMBASSY LIMA

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E. O. 11652: N/A
TAGS: CI, EMIN, UNCTAD
SUBJECT: UNCTAD/COPPER: FURTHER CONVERSATION WITH GONDONNEAU

REF: (A) STATE 074948 (NOTAL), (B) STATE 68014, (C) GENAVA 2109

1. SUMMARY: CHILE'S COPPER COMMISSION HEAD PABLO GONDONNEAU SAID: CIPEC COUNTRIES ARE NOW LESS DOCTRINAIRE IN APPROACH, ESPECIALLY PERU. 1975 PRODUCTION RESTRICTION BY CIPEC WAS A MISTAKE WHICH WILL NOT BE REPEATED -- CIPEC CANNOT FUNCTION AS A CARTEL. THE ORGANIZATION IS CONSIDERING NEW PRICING MECHANISMS WHICH WOULD BE AVERAGE OF LME AND US PRODUCERS PRICE, BUT AGREEMENT AND IMPLEMENTATION WOULD BE DIFFICULT. EXCESSIVE COPPER STUDIES MAY BE ONLY A SUBSTITUTE FOR ACTION. WHILE RECOGNIZING THAT SEVERE PROBLEMS EXIST WITH BUFFER STOCK PROPOSALS AND HAS NO SOLUTION OF HIS OWN, GONDONNEAU NEVERTHELESS ASSERTS THAT EFFECTIVE ACTION NEEDED TO PREVENT COPPER SHORTAGE AND RAPID PRICE INCREASES. U.S. POLICY WILL BE KEY TO ANY POSSIBLE SOLUTION OF PROBLEM.
END SUMMARY.

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2. REFTELS WERE USED AS BASIS OF FURTHER DISCUSSION WITH GONDONNEAU CONCERNING COPPER COMMODITY POLICY. GONDONNEAU APPRECIATES THIS DIALOGUE, WHICH HE FINDS USEFUL.

3. GONDONNEAU OBSERVED THAT, WHATEVER ELSE HAPPENS, CIPEC COULD NEVER FUNCTION EFFECTIVELY AS A CARTEL. HE BELIEVES THAT

IT WAS A MISTAKE FOR CHILE TO JOIN IN THE COMPULSORY RESTRICTION OF COPPER PRODUCTION AGREEMENT WHICH CIPEC FORMULATED IN NOVEMBER 1975. ACCORDING TO GONDONNEAU CHILE WILL NEVER AGAIN BE PARTY TO SUCH AN AGREEMENT. FURTHERMORE, HE DOES NOT THINK OTHER CIPEC MEMBERS WOULD BE WILLING TO ENGAGE IN SUCH PRACTICES AGAIN.

4. ONE MECHANISM RECENTLY DISCUSSED BY CIPEC WOULD BE FOR PRODUCERS TO AGREE TO SELL AT THE AVERAGE OF THE LME PRICE AND THE US PRODUCERS PRICE. WHEN EMBOFF NOTED THAT FOR MANY YEARS THE LME PRICE WAS ABOVE THE US PRODUCERS PRICE, GONDONNEAU JOKINGLY RESPONDED THAT THIS SYSTEM WOULD ONLY BE EMPLOYED WHEN THE US PRODUCERS PRICE WAS HIGHER. EVEN HERE, GONDONNEAU IS PESSIMISTIC THAT AGREEMENT WOULD BE REACHED AMONG THE DIVERSE COUNTRIES COMPRISING CIPEC. IF THE SYSTEM WERE TO BE ADOPTED IT WOULD HELP TO SMOOTH OUT FLUCTUATIONS. IT WOULD NOT, HOWEVER, PREVENT PRICE DECLINES TO UNACCEPTABLY LOW LEVELS.

5. A HOPEFUL SIGN IS THAT THE CIPEC COUNTRIES APPEAR NOW TO BE MORE REASONABLE IN THEIR APPROACH. OF SPECIAL INTEREST IS THE POLICY OF PERU, WHICH GONDONNEAU DESCRIBES AS TURNING AWAY FROM DOCTRINAIRE POSITIONS IN FAVOR OF PRACTICAL MARKET CONSIDERATIONS. GONDONNEAU DETECTED THIS CHANGE IN PERUVIAN POLICY STARTING APPROXIMATELY NOVEMBER OF LAST YEAR.

6. GONDONNEAU IS CONCERNED OVER THE WELTER OF STUDIES BEING DONE ON THE COPPER SITUATION AND WONDERS WHETHER SUCH STUDIES ARE NOT BEING USED AS AN ALTERNATIVE TO TAKING POSITIVE ACTION.

7. GONDONNEAU RECOGNIZES THAT THE PROBLEM IS EXTREMELY LIMITED OFFICIAL USE

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DIFFICULT, AND HE PERSONALLY DOES NOT KNOW WHAT SOLUTION COULD BE FOUND. HE UNDERSTANDS THE DIFFICULTIES IN PUTTING TOGETHER A BUFFER STOCK, PARTLY BECAUSE A CONSIDERABLE AMOUNT OF RESOURCES WOULD BE REQUIRED, WHICH HE ESTIMATES IN THE ORDER OF \$4 BILLION. FURTHERMORE, WERE A BUFFER STOCK TO OPERATE IN CONNECTION WITH EXPORT RESTRICTIONS, GIVEN THAT EXPORTS ARE FAR EASIER TO CONTROL THAN PRODUCTION, STOCKS WOULD PROBABLY CONTINUE TO INCREASE, WHICH WOULD TEND TO DEPRESS PRICES. FINALLY, BUFFER STOCKS CAN NOT BE EXPECTED TO FIGHT BASIC PRICE TRENDS AND THERE WOULD BE CONSIDERABLE DIFFICULTY IN ARRIVING AT ACCEPTABLE RULES OF OPERATION.

8. NEVERTHELESS, ABSENT EFFECTIVE ACTION WHICH WOULD BOOST PRICES TO THE RANGE OF PRODUCTION COSTS FOR A NEW MINE AND THEREBY STIMULATE INVESTMENT IN COPPER PROJECTS, HE THINKS THE WORLD WILL SOON BE EXPERIENCING A COPPER SHORTAGE. GONDONNEAU DOES NOT SEE PRODUCERS BENEFITING FROM SUCH A DEVELOPMENT, AS A RAPID PRICE RUN-UP WILL INTENSIFY SEARCH FOR SUBSTITUTES. THE OBJECTIVE IS TO AVOID THE EXTREMES ON BOTH ENDS OF THE PRICE SPECTRUM.

9. WHILE GONDONNEAU HAS NO SPECIFIC SUGGESTION, TO HIM ONE THING IS VERY CLEAR: THE POSITION OF THE U.S. WILL BE KEY TO ANY POSSIBLE SOLUTION OF THE PROBLEM. IF THE U.S. IS WILLING TO COMMIT ITS RESOURCES TO A SPECIFIC PROPOSAL, GONDONNEAU BELIEVES THAT JAPAN AND THE EC WILL FOLLOW SUIT. CONVERSELY, WITHOUT U.S. LEAD OR STRONG SUPPORT NO COMMODITY AGREEMENT IS LIKELY TO SUCCEED.
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